



# **General Services Department- Billing System Review Audit Report**

Issued by the  
Internal Audit Office  
October 1, 2008

### *EXECUTIVE SUMMARY*

The Internal Audit Office has concluded its limited scope audit of the General Services Department. Based on the results of the audit, eleven findings were identified. Overall, the department is not operating in a control conscious environment and the findings represent significant areas indicating lack of management control over expenditures. We identified \$658,149.79 in questionable expenditures involving 5 vendors. All of these findings are considered significant in nature.

Listed below is a summary of the eleven significant findings identified in this report.

1. A contract violation was identified in a contract between the City and Vendor 1. Vendor 1 did not route pricelist adjustment requests through the Purchasing Department for approval before new prices became effective.
2. The General Services Department does not actively provide user departments with supporting documentation to substantiate the billing of fuel and maintenance costs for each month's billing transactions.
3. The General Services Department has been using a contract to procure service work from Vendor 1 when the contract's scope only defines the purchase of McNeilus proprietary parts. No labor rates are stated in the contract. We identified a total of \$61,295.00 in labor charges for just two parts reviewed for which service was invoiced.
4. We identified a total of \$295,485.08 in questionable grab arm purchases from Vendor 1 by the General Services Department.
5. We identified a total of \$161,188.98 in questionable replacement hydraulic cylinder purchases from Vendor 1 by the General Services Department. It appears General Services was purchasing rebuilt cylinders and paying for new or remanufactured cylinders.
6. We identified \$75,482.68 in hydraulic cylinder work purchased from Vendor 1 while Vendor 2 had a contract with the City for the same time period. The General Services Department procured \$2,693.96 of hydraulic cylinder work from Vendor 2 for the same time period.
7. We identified purchases totaling \$10,126.77 for the replacement hydraulic cylinders from Vendor 1 that appeared to be covered under a manufacturer's warranty.
8. We identified one invoice from Vendor 1 for service work charged at \$80.00 per hour for labor.
9. We identified \$52,249.33 in questionable labor charges due to Vendor 3 not providing either the number of hours charged or the labor rate used to calculate the total hours invoiced. The lack of labor billing data does not allow a comparison to be made to the contract stated labor rates.
10. We identified invoices totaling \$1,841.95 from Vendor 4 while a contract existed with Vendor 5 for towing of city-owned vehicles. We also identified a total of \$400.00 in questionable expenditures for towing charges invoiced by Vendor 5.
11. We identified an internal control breakdown of segregation of duties within the Parts Counter operations.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

## ***BACKGROUND***

The General Services Department located on Lafayette Drive is comprised of six major divisions which includes Fleet Services.

- Building Maintenance
- Copy Center Services
- Fleet Services
- Mail Distribution
- Utilities and Energy Management
- Accessibility and ADA

The Fleet Services Division within the General Services Department oversees and maintains the City's fleet including medium and heavy duty vehicles and equipment. The Fleet Services Division also coordinates the purchase of vehicles and equipment, maintains an inventory of replacement parts, and manages the various City fuel distribution centers across the El Paso area. The Fleet Services Division operates three maintenance/repair facilities, each located at 1059 Lafayette Drive, 910 Raynor Street, and 4096 Doniphan Drive locations. The Deputy City Manager for Development and Infrastructure Services requested an audit of this area due to numerous vendor complaints.

## ***SCOPE & METHODOLOGY***

The objectives of this audit were to ascertain if adequate controls are in place within the Fleet Services Division to prevent the overbilling and/or double billing of warranty work, contracted services, and invoicing of fictitious work of user departments for the maintenance and repair of equipment and vehicles.

We conducted audit steps to determine if Fleet Services Division is operating in a control conscious environment. A control conscious environment is characterized by the activity's adequacy and effectiveness in improving risk management, controls and governance processes. This included evaluating the following:

- Adequate level of internal control awareness.
- Proper segregation of duties.
- Existence of a proper monitoring system.
- Appropriate authorization/approval of expenditures.
- Adequate safeguarding of financial, physical, and information assets.

To determine this, we reviewed a random sample of vendors, invoices, and work tickets for the time period under review. The audit relied on inquiries, observations, and testing of controls, to obtain sufficient documentation to provide reasonable assurance that the audit objectives were met.

This was a limited scope audit and the audit period covered Fiscal Year 2006 through Fiscal Year 2008. The areas reviewed dealt with two specific parts, towing, and service work on Garbage Trucks. All references to General Services Department relate to our review of the Fleet Services Division.

The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,  
AND MANAGEMENT'S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an "Other Finding".

**Finding 1**

**Contract Violation**

Vendor 1 violated the pricelist adjustment provision of contract #2006-013 with the City for McNeilus specific proprietary parts and the current pricelist dated April 15, 2008 should be considered void. The pricelist adjustment request was not routed through the Purchasing Department for approval and the vendor did not send the request at least 30-days before new prices became effective. Instead the vendor routed the pricelist directly to General Services without prior approval and 106-days after higher prices were in effect. Therefore, the pricelist included in the contract file dated October 15, 2005 appears to be the only properly approved pricelist.

**Recommendation**

The General Services Department should ensure that all parts and service costs on invoices are consistent with the approved pricelist of October 15, 2005. If any new price lists are submitted by Vendor 1, these pricelists should be routed to the Purchasing Department Manager 30 days prior to the new prices taking effect.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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As an intermediate step, a management team with expertise in administration, operations, fleet services and building maintenance has been organized and placed in the Department temporarily until recruitment is finalized. This team is reviewing and implementing changes to internal control measures related to contracts, purchase orders, work orders, procurement card usage and invoicing with the assistance of the City's Chief Financial Officer. Improvements to administrative processes and internal controls have been set in place and more comprehensive measures will be accomplished by year-end. It is anticipated that a more final business work plan will be developed as a new management team is hired and in place. The staff of the General Services Department and the Office of the City Manager will take specific actions to each of the audit findings, cooperate and fully support the ongoing investigations, and identify and act upon any related organizational weaknesses determined as a consequence of the audit and its follow-up.

**Responsible Party**

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 2**

**Lack of Supporting Documentation**

The General Services Department does not have a review or authorization process in place before user departments are billed through a transfer of funds for fuel and service charges to ensure the amounts charged and department accounts are correct.

The General Services Department does not provide user departments with supporting documentation to support the billing of fuel and maintenance costs for the month.

**Recommendation**

The General Services Department should strengthen billing controls by implementing a management-level review and authorization of user department fuel and maintenance charges before the funds transfer is processed.

Also, the General Services Department should provide a summary of fuel and maintenance costs charged to each user department on a monthly basis. This monthly summary should at the minimum list the vehicle/equipment serviced or repaired including their identification number, total fuel charges, total service charges, and if sent out to an external vendor, a reference to the vendor's invoice number so that the user department can research the costs incurred at a later date, if needed. This would ensure that user departments have adequate supporting documentation readily available.

**Management's Response**

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**Responsible Party**

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 3**

**Unauthorized Service Work**

The scope of contract #2006-013 between Vendor 1 and the City only defines the purchase of McNeilus specific proprietary parts and not the procurement of “service” work. No labor rates are stated in the contract.

Based on our review of labor hours charged for service work performed for the repair or replacement of two parts selected at random for testing, we identified a total of \$61,295.00 in labor charges billed to the General Services Department. The breakdown of costs are:

- 40 invoices totaling \$41,227.50 in labor charges for hydraulic cylinders; and,
- 31 invoices totaling \$20,067.50 in labor charges for grab arms.

**Recommendation**

The General Services Department should ensure that it adheres to the scope and other provisions of all the contracts it utilizes.

**Management’s Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Aduato, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 4**

**Overpayment of Grab Arms**

Based on our review of the approved pricelist dated October 15, 2005 under contract #2006-013 between Vendor 1 and the City, we identified a total of \$295,485.08 in questionable replacement grab arm purchases by the General Services Department. The breakdown of overpayment costs are:

- 21 invoices totaling \$14,340.20 in questionable purchases; and,
- 19 invoices totaling \$281,144.88 where the part number could not be traced to the approved pricelist dated October 15, 2005.

**Recommendation**

The General Services Department should ensure that all parts and service costs on invoices are consistent with approved pricelists.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adaauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 5**

**Overpayment of Hydraulic Cylinders**

Based on our review of the approved pricelist dated October 15, 2005 under contract #2006-013 between Vendor 1 and the City, we identified a total of \$161,188.98 in questionable replacement hydraulic cylinder purchases by the General Services Department. The breakdown of overpayment costs are:

- 61 invoices totaling \$28,505.23 in questionable purchases;
- 43 invoices totaling \$83,302.32 where the part number could not be traced to the approved pricelist dated October 15, 2005; and,
- 63 invoices totaling \$49,381.43 that did not reference the manufacturer's part number making it impossible to trace the invoiced cost to the approved pricelist.

**Recommendation**

The General Services Department should ensure that all parts and service costs on invoices are consistent with approved pricelists.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adatao, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 6**

**Unauthorized Purchases of Hydraulic Repair Services**

Based on the review of hydraulic cylinder work procured from January 2008 through August 2008, General Services appears to have procured \$75,482.68 of hydraulic cylinder work from Vendor 1 without having an active contract to provide hydraulic repair services with the City.

Vendor 2 was under contract #2008-020 to provide hydraulic repair work for the City. For the same time period stated above, General Services procured \$2,693.96 of hydraulic cylinder work from Vendor 2.

**Recommendation**

The General Services Department should ensure an active contract exists for each vendor that the department procures services or goods from. Also, the General Services Department should cease immediately to procure hydraulic cylinder work from Vendor 1.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 7**

**Purchases of Hydraulic Cylinders Still Under Warranty**

We identified \$10,126.77 in purchases of replacement hydraulic cylinders from Vendor 1 that appeared to be covered under a manufacturer's warranty.

**Recommendation**

The General Services Department should determine whether parts and hydraulic cylinders are covered under warranty before they are replaced. The General Services Department should investigate if the hydraulic cylinders were covered under warranty.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 8**

**Overpayment of Labor Charges**

General Services paid \$80.00 per hour for labor charges on one invoice from Vendor 1 that contained a one-hour labor charge for a miscellaneous repair.

**Recommendation**

The General Services Department should ensure that the \$80.00 charge on the invoice is correct.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adatao, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 9**

**Unsupported Labor Charges**

Based on our review of the approved labor rates stated on contract #2004-107 between Vendor 3 and the City, we could not complete our testing due to the invoices reviewed lacking important labor billing data. The review of labor hours identified invoices submitted by Vendor 3 that do not have the number of hours charged or the labor rate used to calculate the total hours invoiced. Contract #2004-107 stated a shop labor rate of \$83 per hour and a “journey man” labor rate of \$65 per hour. The lack of labor billing data does not allow a comparison to be made to the contract stated labor rates. Therefore, the \$52,249.33 identified in labor charges are considered questionable.

**Recommendation**

The General Services Department should ensure that all labor charges on invoices are consistent with the stated terms contained in the Contract #2004-107 with Vendor 3.

**Management’s Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adatao, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 10**

**Unauthorized Towing Charges**

General Services Department processed 25 invoices totaling \$1,841.95 from Vendor 4 submitted from November 14, 2005 through March 5, 2007 while a towing contract was in effect with Vendor 5 for city-owned vehicles. The contract with Vendor 5 was later terminated for convenience effective June 24, 2008 and rebid.

We identified 7 invoices totaling \$400.00 in questionable towing charges provided by Vendor 5 based on the towing pricelist in effect during the period the invoices were submitted.

**Recommendation**

The General Services Department should ensure that all towing charges and fees on invoices are consistent with approved towing pricelists in effect and that only contracted vendors are used.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Adauto, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

December 31, 2008; Final business work plan by May 2009.

**Finding 11**

**Lack of Segregation of Duties**

There is an internal control breakdown of segregation of duties within the Parts Counter operations. The parts counter area employs four Materials Specialists and a Materials Supervisor who all have the ability to order parts, receive parts, issue parts, and update parts information in the Fleet Focus vehicle maintenance database system.

**Recommendation**

We recommend the General Services Department address the segregation of duties issue within the Parts Counter operations by implementing controls that will prevent any one person from having the means to order, receive, and issue inventory items.

**Management's Response**

The Office of the City Manager is aware of the internal control breakdown that has occurred within the General Services Department and has responded quickly to address the significant findings of this audit. Under the direction of the Deputy City Manager for Development & Infrastructure Services, immediate steps have been taken to address the management issues of the department and recruitment is underway for a new Director and other key positions added to the staffing table of the Department.

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**Responsible Party**

Patricia D. Aduato, Deputy City Manager for Development & Infrastructure Services; John Neal, Acting Director for General Services Department.

**Implementation Date**

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### ***INHERENT LIMITATIONS***

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

### ***CONCLUSION***

Based on the results of this audit, significant internal control breakdowns in the monitoring of contracts and their provisions were identified. These internal control breakdowns resulted in the identification of \$658,149.79 in questionable expenditures. Our audit work identified processes that were developed and designed within General Services that allowed the internal control breakdowns to occur.

As illustrated in the chart below, 7 out of the 11 findings totaling \$603,658.51 (91.72%) are associated with Vendor 1. There are significant systemic problems regarding the payment of invoices at General Services. These systemic problems have contributed to the internal control breakdown within General Services.

<b>Vendor</b>	<b>Questionable Cost</b>	<b>Percentage of Total</b>	<b>Finding Associated to Vendor</b>
<b>1</b>	\$603,658.51	91.72%	1,3,4,5,6,7,8
<b>2</b>	N/A	N/A	N/A
<b>3</b>	\$52,249.33	7.94%	9
<b>4</b>	\$1,841.95	0.28%	10
<b>5</b>	\$400.00	0.06%	10
<b>TOTALS</b>	<b>\$658,149.79</b>	<b>100.00%</b>	

It is strongly recommended that a more rigorous review of invoices be completed before they are processed and paid. User departments should be provided with adequate support documentation for monthly fuel and service billings. The magnitude of the financial activity within the Fleet Services Division was budgeted at \$14,467,332 for Fiscal Year 2008. The questionable expenditures of \$658,149.79 identified in this audit report are 4.54% of the Fiscal Year 2008 Budget. Considering that only 5 vendors were reviewed, the total amount of questionable expenditures could be substantially more taking into account the overall Fiscal Year 2008 Budget.

Finally, the audit results give substance to the allegations made by vendors to the Deputy City Manager for Development and Infrastructure Services.

Signature on File

Edmundo S. Calderón, CIA, CGAP, MBA  
Chief Internal Auditor

Signature on File

Miguel Montiel, CIA, CGAP  
Lead Auditor

Distribution:

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